

ARIZONA  
**MONTHLY FISCAL HIGHLIGHTS**  
June 2004

General Fund revenue collections were \$851.5 million in June. Total FY 2004 revenue collections were \$6,690.1 million. This amount is 7.6% over FY 2003 collections. Excluding one-time revenues and Urban Revenue Sharing, FY 2004 revenues were 10.4% over the prior year.

The FY 2004 revenue collection amount of \$6,690.1 million was \$135.7 million over the forecast in the enacted FY 2005 budget. The budget includes “triggers”, which dedicate revenue collections above the forecast for specific purposes. The additional FY 2004 revenue collection of \$135.7 million enacts three sets of triggers. The first two sets of triggers add a total of \$102 million in funding for School Facilities Board Building Renewal and Deficiencies Correction, Child Care, State Employer Health Insurance charges, Department of Public Safety communications system improvements, and the Budget Stabilization Fund. In addition, the remaining \$33.7 million will be divided evenly between the General Fund and the Budget Stabilization Fund. On August 2, 2004, JLBC Staff and the Office of Strategic Planning and Budgeting released a more detailed discussion of the funding included in the triggers (see attachment).

This report also includes a summary of the June 29<sup>th</sup> JLBC meeting.

<b>General Fund Revenues</b>				
<b>Compared to Revised FY 2004 Forecasts and FY 2003 Collections</b>				
		(\$ in Millions)		
	<u>FY 2004 Collections</u>	<u>Difference From 1/04 Forecast <sup>1/</sup></u>	<u>Difference From 5/04 Forecast <sup>2/</sup></u>	<u>Difference From FY 2003 <sup>3/</sup></u>
June	\$ 851.5	\$ 5.4	N/A	\$ 58.1
Year-to-Date	\$ 6,690.1	\$ 229.7	\$ 135.7	\$ 645.0

<sup>1/</sup> Revised FY 2004 forecast (January 2004).  
<sup>2/</sup> Revised FY 2004 forecast (budget signed by Governor).  
<sup>3/</sup> Excludes federal cash assistance grant, URS, judicial enhancement and amnesty deposit.

**Sales Tax** revenue in June increased by 7.7%, bringing the year-to-date growth rate to 8.6%. Sales tax collections ended the fiscal year \$57.4 million over the FY 2005 enacted budget forecast.

- **Retail Sales Tax** receipts grew by 6.8% for the month of June, and 7.6% for the fiscal year.
- **Restaurant and Bar Tax** collections grew by 6.2% for the month, and 8.2% for the year.
- **Contracting Tax** increased by 13.3% for the month, and a total of 13.9% for the year.
- **Use Tax** grew by 22.8% for the month, and 22.4% for the year.

**Individual Income Tax** collections in June were 4.3% above last year. Withholding tax collections increased by \$1.7 million or 0.9%. Estimated and final payments were up \$14.3 million. Refunds were \$6.1 million greater than last June, partially offsetting the increased payments.

The overall individual income tax revenue growth rate of

4.3% for June brings the year-to-date growth rate to 9.9%. For the year, withholding tax collections increased by 1.2% over last year, estimated and final payments increased by 18.2%, and refunds decreased by (7.6)%. Individual income tax collections ended the fiscal year \$93.6 million over the enacted budget estimate. Growth for the category has been led by significantly higher than anticipated levels of estimated and final payments during this year's tax season.

**Corporate Income Tax** revenue increased by 8.1% compared to June of last year. Year-to-date corporate income tax revenue is 26.9% above last year's results. Corporate income tax collections ended the year \$18.8 million above the FY 2005 budget forecast.

**Recent Economic Indicators:** Recent statistics showed signs of moderating economic growth. **U.S. Gross Domestic Product (GDP)** growth slowed in 2004's second quarter from the breakneck pace set during the previous 12 months. Investment in equipment and software and medical care expenditures were among the largest contributors to the second quarter results. The **U.S. Index of Leading Economic**

**JLBC**

**Indicators** took a turn for the worse in June, falling by (0.2)%. The first decline since March 2003 was instigated by reductions in building permits, average weekly manufacturing hours, money supply, and the interest rate spread.

**U.S. Semiconductor Billings** (three-month moving average) advanced 2.8% in June to almost \$3.3 billion, a 29.7% year-over-year increase. Global semiconductor sales soared by more than 40% from a year ago, led by a 61% gain in the Asia-Pacific market.

The pace of price inflation moderated in June. The **U.S. Consumer Price Index (CPI)** (three-month moving average) climbed 0.4% from the previous reading, and while energy costs remained a concern, the core CPI, excluding fuel and energy costs, increased by just 1.9% from a year ago.

The latest data on consumer sentiment reflected buoyant expectations. The Conference Board's **Consumer Confidence Index** jumped 3.2% in July and stood 37.8% higher than a year ago. This was the highest level reported since June 2002.

The Arizona economy continued to perform well in spite of seasonal job losses. The **state's unemployment rate** dropped to 4.7% (seasonally adjusted) in June, which was almost a full percentage point below the national jobless rate. **Non-farm employment** increased by 2.4% on a year-over-year basis, with construction accounting for more than 30% of the jobs created.

In 2004's first quarter, **Arizona personal income** increased 1.8% from the last three months of 2003, which ranked 6<sup>th</sup>

among the states. Wages and salaries grew even faster, while dividends, interest and rent lagged behind.

The **Arizona Tourism Barometer** rebounded to 97.0 in May, a 5.8% improvement from April. Hotel and motel retail sales, along with air traffic, were among the factors leading the increase. Meanwhile, the **Arizona Index of Leading Economic Indicators** edged up 0.2% in May, with inventories and employment providing positive contributions.

The latest **Arizona Business Conditions Index (BCI)** posted strong results in July, reaching 67.2, the best result since February. The state's supply chain managers reported a jump in purchasing activity that was the driving force behind the increase.

In FY 2004, **AHCCCS caseload growth** was less than in recent years, and the number of Proposition 204 clients showed trends similar to the regular AHCCCS population. Both populations experienced several months of declining enrollment from October 2003 through May 2004 before rising sharply in June. June's totals were above the levels assumed in the FY 2005 AHCCCS appropriation.

The number of **TANF recipients** (3-month average) declined to 117,467, a (4.5)% drop from the previous three-month period. The caseload was (5.8)% below last year's level.

From May through July, the **Department of Corrections' inmate population** (three-month average) grew by 71 inmates per month. This growth rate was below the budgeted rate of 115 net new inmates per month.

#### RECENT ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
-Unemployment Rate	June	4.7%	(0.4)%	(1.1)%
-Jobs	June	2.317 million	1.3%	2.4%
-Contracting Tax Receipts (3 month average)	April-June	\$50.4 million	9.6%	18.0%
-Retail Sales Tax Receipts (3 month average)	April-June	\$137.2 million	(0.6)%	9.3%
-Arizona Tourism Barometer	May	97.0	5.8%	19.0%
-Leading Indicators Index	May	124.5	0.2%	3.5%
-Business Conditions Index (>50 signifies expansion)	July	67.2	2.0%	16.7%
-Arizona Personal Income	1 <sup>st</sup> Quarter 2004	\$156.8 billion	1.8%	7.2%
-AHCCCS Recipients (3 month average)				
Regular	April-June	564,106	(0.2)%	0.3%
Proposition 204		167,975	(1.9)%	4.2%
-TANF Recipients (3 month average)	April-June	117,467	(4.5)%	(5.8)%
-DOC Inmate Growth (3 month average)	May-July	31,970	71 inmates	1,036 inmates
<b>U.S.</b>				
-Gross Domestic Product	2 <sup>nd</sup> Quarter 2004	\$10.778 trillion	0.8%	4.8%
-Consumer Confidence Index	July	106.1	3.2%	37.8%
-Leading Indicators Index	June	116.2	(0.2)%	3.8%
-U.S. Semiconductor Billings (3 month moving average)	April-June	\$3.288 billion	2.8%	29.7%
-Consumer Price Index (3 month moving average)	April-June	186.3	0.4%	2.9%

# State of Arizona

## General Fund Revenue: Change from Previous Year and January Revised Forecast

### June 2004

	Current Month					FY 2004 YTD (Twelve Months)				
	Actual June 2004	Change From				Actual June 2004	Change from			
		June 2003		Revised Forecast			June 2003		Revised Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$286,028,384	\$20,428,048	7.7 %	\$3,429,029	1.2 %	\$3,294,788,319	\$260,910,604	8.6 %	\$70,508,419	2.2 %
Income - Individual	239,484,015	9,895,689	4.3	2,807,989	1.2	2,306,176,340	208,421,472	9.9	125,817,440	5.8
- Corporate	90,570,308	6,776,769	8.1	6,779,282	8.1	494,044,869	104,638,523	26.9	31,394,569	6.8
Property	9,503,430	12,142,392	--	7,181,477	--	39,587,710	13,897,867	54.1	1,987,710	5.3
Luxury	5,033,826	(88,605)	(1.7)	(36,050)	(0.7)	61,301,018	(3,285,932)	(5.1)	1,301,018	2.2
Insurance Premium	60,075,132	25,496,817	73.7	3,686,767	6.5	308,967,921	82,319,121	36.3	11,583,621	3.9
Estate	2,131,642	(6,140,852)	(74.2)	(1,095,791)	(34.0)	38,818,431	(55,399,488)	(58.8)	(1,181,569)	(3.0)
Other Taxes	46,545	(3,291)	(6.6)	(462,710)	--	2,781,549	(5,907,882)	(68.0)	(1,981,251)	(41.6)
Sub-Total Taxes	\$692,873,282	\$68,506,967	11.0 %	\$22,289,993	3.3 %	\$6,546,466,157	\$605,594,285	10.2 %	\$239,429,957	3.8 %
<u>Other Revenue</u>										
Lottery	0	(1,435,000)	(100.0)	0	--	31,000,000	0	0.0	0	0.0
License, Fees and Permits	2,524,496	(261,154)	(9.4)	136,379	5.7	25,510,207	(597,325)	(2.3)	1,103,698	4.5
Interest	(11,061,296)	(10,162,836)	--	(11,386,417)	--	12,337,188	(518,115)	(4.0)	(12,662,812)	(50.7)
Sales and Services	9,795,566	3,171,413	47.9	4,453,185	83.4	52,980,736	5,658,180	12.0	5,031,310	10.5
Other Miscellaneous	9,695,577	(1,354,192)	(12.3)	789,568	8.9	48,978,961	24,888,637	103.3	15,806,296	47.6
Disproportionate Share	127,117,638	6,504,125	5.4	2,912,625	2.3	132,742,825	12,129,312	10.1	2,912,625	2.2
Transfers and Reimbursements	1,516,068	(6,792,116)	(81.8)	(13,805,900)	(90.1)	10,726,069	2,376,118	28.5	(110,271,931)	--
BSF Transfer for Alt. Fuels	0	(81,018)	(100.0)	0	--	187,594	(4,522,258)	(96.0)	187,594	--
Sub-Total Other Revenue	139,588,049	(10,410,778)	(6.9) %	(16,900,560)	(10.8) %	314,463,580	39,414,549	14.3 %	(97,893,220)	(23.7) %
TOTAL BASE REVENUE	\$832,461,331	\$58,096,189	7.5 %	\$5,389,433	0.7 %	\$6,860,929,737	\$645,008,834	10.4 %	\$141,536,737	2.1 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(30,422,097)	5,457,824	(15.2)	(64)	0.0	(365,065,164)	65,493,889	(15.2)	(64)	0.0
Tax Amnesty	0	0	--	0	--	47,123,527	47,123,527	--	123,527	--
Budget Balancing Transfers	49,500,000	(211,225,313)	(81.0)	0	0.0	54,500,000	(290,363,175)	(84.2)	0	0.0
Federal Cash Assistance	0	(87,234,115)	(100.0)	0	--	87,265,900	31,785	0.0	87,265,900	--
Judicial Enhancement	0	0	--	0	--	5,389,300	5,389,300	--	804,575	--
Sub-Total Transfers In	19,077,903	(293,001,604)	(93.9) %	(64)	(0.0) %	(170,786,437)	(172,324,674)	-- %	88,193,938	-- %
TOTAL REVENUE	\$851,539,234	(\$234,905,415)	(21.6) %	\$5,389,369	0.6 %	\$6,690,143,300	\$472,684,160	7.6 %	\$229,730,675	3.6 %

VP% = Percent change from comparable period in prior year

VF% = Variance from forecast

F% = Forecast percent change for the fiscal year.

R% = Average percent change from comparable period in prior year which must be attained over remaining months to realize the forecast for year.

**JLBC MEETING**

At its June 29th meeting, the Joint Legislative Budget Committee considered the following issues:

**Department of Economic Security – Review of FY 2004 and FY 2005 Expenditure Plan for Excess Workforce Investment Act Monies** – The Committee gave a favorable review of the Department of Economic Security's (DES) FY 2004 expenditure plan for \$1.8 million in excess Workforce Investment Act (WIA) monies. A footnote in the FY 2004 Appropriation Act requires JLBC review before excess WIA monies can be spent by the agency. The \$1.8 million will be used to fund new and expanded programs pertaining to women's issues, youth programs and a nursing initiative.

The Committee further recommended that DES submit performance measures for these new and expanded programs.

The Committee also gave a favorable review of the Department of Economic Security's (DES) FY 2005 expenditure plan for \$2.5 million in discretionary WIA monies. The expenditure plan submitted by DES represents core functions typically funded by WIA monies.

The Committee further recommended that DES provide its perspective on the findings of a Morrison Institute report on streamlining workforce development services. The report indicated that workforce development activities provided by the state suffer from a lack of coordination.

**Department of Economic Security – Transfer of Appropriations from the Day Care Subsidy SLI to the Transitional Child Care SLI** – The Committee gave a favorable review of a transfer of \$400,000 from the Day Care Subsidy Special Line Item (SLI) to the Transitional Child Care SLI in order to address a shortfall in the Transitional Child Care Program.

**Department of Economic Security – Report on Child Protective Services Issues** – The Committee received a report by JLBC Staff on Child Protective Service (CPS) performance measures and FY 2004 supplemental appropriations. JLBC Staff recommended adding 5 performance measures to the financial and program accountability report. The additional measures will evaluate employee satisfaction within the Division of Children, Youth and Families (DCYF), as well as the decision-making process within DCYF.

The report also provided an update on the \$16.6 million 2<sup>nd</sup> Special Session supplemental appropriation for CPS. DES has filled 88 of the 131 new positions it had planned to fill by the report date. All of the 80 caseworker positions have been filled, but only 8 of the 51 support positions.

**Department of Public Safety – Review of the Statewide Interoperability System Design Expenditure Plan** – The Committee gave a favorable review of the Department of Public Safety's (DPS) Statewide Interoperability Design expenditure plan to develop design standards for a statewide interoperable communication system. An interoperable system enhances the ability of various public safety agencies to coordinate their actions in the event of a large-scale emergency. The expenditure plan includes a timeline for hiring staff, developing the conceptual design and completing the detailed design. Conceptual design work would be completed by mid-2006 with final design acceptance in FY 2008, at a total cost of approximately \$8 million.

**Department of Revenue – Review of Ladewig Expenditure Plan** – The Committee gave a favorable review to the Department of Revenue's administrative expenditure plan of \$3 million for the FY 2005 Ladewig project. The vast majority of the expenditure plan is for printing, postage and mailing warrants and form 1099's for taxpayer payments.

**Department of Health Services – Review of Capitation Rate Changes** – The Committee gave a favorable review of the Department of Health Services (DHS) Children's Rehabilitative Services (CRS) program capitation rate adjustments beginning July 1, 2004. The approved changes would cost \$(1.5) million General Fund less than the FY 2005 budgeted amount. The weighted average rate change is (4)% below FY 2004. In comparison, the FY 2005 budget assumed a 6% capitation rate increase.

The Committee also gave a favorable review to the Behavioral Health Capitation Rate changes. The approved rates cost \$1.7 million General Fund more than the capitation adjustment assumed in the FY 2005 budget. The weighted average rate of the increases is 12.8% above FY 2004. The preliminary capitation rate numbers reported by DHS, which were the basis for the FY 2005 budget, assumed an 11.4% capitation rate increase.

The Committee also requested that DHS and DES report by October 15, 2004 with an estimate of how much funding is freed up in DES' Children Services and Comprehensive Medical & Dental Program line items as a result of shifting treatment from DES to DHS.

**Attorney General – Review of Allocation of Settlement Monies** – The Committee gave a favorable review to the allocation of monies received from 2 settlement agreements totaling approximately \$1.1 million.

The first case involved Medco Health Solutions which allegedly did not provide accurate information about its prescription drug interchange program, which resulted in the switching of prescription drugs to the less expensive drug. Under the settlement, Arizona will receive \$200,000, which will be deposited in the Consumer Fraud Revolving Fund. The state is also expected to receive at least **\$600,000 in other**

funds, which will be passed on to the Attorney General to benefit low-income, disabled or elderly consumers of prescription drugs. The Attorney General does not have a distribution plan for this \$600,000. The Committee requested that the Attorney General report back when it has developed a specific plan for these monies.

The second case involved Warner-Lambert allegedly encouraging doctors to prescribe Neurontin for the treatment of bipolar disorder, although there is no evidence that Neurontin is effective in treating this condition. Under this settlement, Arizona will receive \$278,000 to be deposited in the Consumer Fraud Revolving Fund.

**Department of Administration – Report on Implementation of Self-Insurance for State Employee Health Insurance** – The Committee received a report on the implementation of self-insurance. ADOA has moved forward on awarding various contracts for state-employee health care benefits. Contracts were awarded by geographic area and type of plan.

- Employees in Maricopa, Gila, Pinal, Pima and Santa Cruz Counties have a choice between 3 non-integrated and 1 integrated plan.
- Employees in all other counties have only 2 non-integrated plans to choose from.
- Employees will be required to pay \$10 more per month if they select an integrated plan (ADOA had originally proposed a \$15 differential) than a non-integrated plan.
- Walgreen's Health Initiative will be the pharmacy manager. Walgreens, however, is contracting with non-Walgreen pharmacies throughout the state.
- Patients will be able to see more specialists without first seeing a primary care physician than under the current contract.

**Arizona Community Colleges – Report on Dual Enrollment and Appointing Ad Hoc Committee** – The Committee received a report by the Arizona Community Colleges on dual enrollment courses offered in FY 2003 and the achievements of students dual enrolled in FY 2002. The report indicated that, in FY 2003, 32,582 students were dual enrolled. Of that total, 29,504 students earned a C or better, qualifying those students for both high school and community college credit.

**AHCCCS – Review of KidsCare Behavioral Health Capitation Rate Changes** – The Committee gave a favorable review to the proposed capitation rate increase of 1.7% above FY 2004 rates for the KidsCare (including parents) program. For children in KidsCare, the approved rates represent an increase of 12% above the FY 2004 rates, while the parents rate increase represent a (12.6%) decrease. The recommended rates represent increases above FY 2004, but are within budgeted levels for FY 2005.

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David P. Jankofsky  
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Richard Stavneak  
Director, JLBC Staff

August 2, 2004

The Honorable Janet Napolitano  
Governor  
1700 W. Washington, 9<sup>th</sup> Floor  
Phoenix, AZ 85007

Senator Ken Bennett  
Senate President  
1700 W. Washington, Room 204  
Phoenix, AZ 85007

Representative Jake Flake  
Speaker of the House of Representatives  
1700 W. Washington, Room 114  
Phoenix, AZ 85007

Dear Governor Napolitano, Senator Bennett, Representative Flake:

Section 67 of Laws 2004, Chapter 275 established a FY 2004 General Fund revenue forecast of \$6,548,821,000. Section 67 provides that, by July 31, 2004, the staff director of the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSPB) shall jointly notify the Governor, the President of the Senate, and the Speaker of the House of Representatives whether the FY 2004 revenue collections, excluding the beginning balance, exceed the FY 2004 forecast, and, if so, by how much. These estimates are to be used to fulfill the requirements of Chapter 275 relating to FY 2005 conditional appropriations, or "triggers".

The FY 2004 estimate includes one-time revenue of \$2,644,100 for judicial collections, and \$129,830,200 for disproportionate share revenue. Section 67 provides that the FY 2004 estimate may be adjusted to reflect actual judicial collections and disproportionate share revenue. Based on actual judicial collections of \$5,389,300 and disproportionate share revenue of \$132,742,800, the FY 2004 General Fund revenue forecast has been adjusted upward by \$5,657,800 to a total of \$6,554,478,800.

It is estimated that, excluding the beginning balance, FY 2004 General Fund revenue collections total \$6,690,143,300. This total is \$135,664,500 greater than the adjusted forecast for the fiscal year.

The \$135,664,500 in FY 2004 revenues above the budget forecast activates the triggers in Chapter 275. That chapter also requires public notice by the Governor formally stating the amounts appropriated from the State General Fund at the levels indicated in this letter. The first \$50,000,000 trigger provides \$30,000,000 in additional funding for School Facilities Board Building Renewal, \$5,000,000 for Child Care, and \$15,000,000 for the employer share of state employee health insurance premiums.

The second \$52,000,000 trigger provides \$10,000,000 in additional funding for School Facilities Board Building Renewal, \$8,000,000 for the employer share of state employee health insurance premiums, \$6,000,000 for the Budget Stabilization Fund, \$25,000,000 for the School Facilities Board Deficiencies Correction Fund in lieu of bonding, and \$3,000,000 for Department of Public Safety communications systems improvements.

In addition to the first two triggers, any additional surplus is to be divided evenly between the General Fund and the Budget Stabilization Fund. With \$135,664,500 in total surplus revenues and \$102,000,000 in the first two triggers, \$33,664,500 remains to be distributed. Of this amount, \$16,832,250 will be distributed to the General Fund, and \$16,832,250 will be distributed to the Budget Stabilization Fund.

Section 67 also provides that any additional revenue above the budgeted forecast in the first six months of FY 2005 beyond the first two triggers will be divided evenly between the General Fund and the Budget Stabilization Fund.

The attached table summarizes the distribution of FY 2004 revenue collections above the budgeted forecast.

Sincerely,

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Richard Stavneak, Director, JLBC

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David Jankofsky, Director, OSPB

Attachment  
RS/DJ:jb

**FY 2004 General Fund Revenue  
Actual Collections Compared to Forecast**

Budgeted FY 2004 Revenue Forecast	\$ 6,548,821,000
Adjustments	
Judicial Enhancements	2,745,200
Disproportionate Share	<u>2,912,600</u>
Adjusted FY 2004 Forecast	6,554,478,800
Actual FY 2004 Revenue Collections	6,690,143,300
FY 2004 Revenue Above Forecast	<u><u>\$ 135,664,500</u></u>
Distribution of Revenue Above Forecast	
1st Trigger	
SFB Building Renewal	\$ 30,000,000
Child Care	5,000,000
State Employer Share-Health Insurance	<u>15,000,000</u>
Subtotal	50,000,000
2nd Trigger	
SFB Building Renewal	10,000,000
State Employer Share-Health Insurance	8,000,000
Budget Stabilization Fund	6,000,000
SFB Deficiencies Correction in lieu of Bonding	25,000,000
DPS Communications System	<u>3,000,000</u>
Subtotal	52,000,000
Additional Trigger	
General Fund	16,832,250
Budget Stabilization Fund	<u>16,832,250</u>
Subtotal	33,664,500
Total Distribution	<u><u>\$ 135,664,500</u></u>